SESSION 2: LONG-TERM IMPACT OF STRUCTURAL REFORMS IN THE LABOUR MARKET

*COMMENTS*

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Three complementary papers

- **Orlandi (ECB)** presents a new regression analysis of the impact of structural reforms on long-term labour market outcomes and compares the results with the reform elasticities used by the OECD-IMF in the quantification of the effects of the GSs.

- **Aleksynska (ILO)** reviews G20 labour market reform agenda and discusses some specific recommendations (EPL), interactions and complementarities.

- **Izquierdo (Bank of Spain)** provides an assessment of the Spanish experience of labour reform in “bad times”
It follows the regression strategy also adopted in many empirical studies: cross-country, time series (static) regressions. Results are fairly consistent with those obtained, especially recent, studies. Some of the same limitations:

- Policy indicators vs specific policy measures (including their implementation)
- L-T vs S-T: GSs are expected to deliver by 2018; estimates refer to long-run effects
- Asymmetric response of LM reforms in good or bad times?
- Policy interactions/complementarities are key, yet seldom analysed (UB & ALMP; UB & EPL; EPL and UD)
- ER (or UR); how about LM resilience
- Evidence largely refers to advanced G20 countries: relevance for emerging G20 (measurement, coverage, implementation)
• **Concerns** about the focus of the G20 LM reform agenda:
  – Drivers considered: short-term effects; data availability; careful not to mix up policy levers with factors either outside direct policy reach or outcomes
  – Compliance: v serious issue, especially in emerging economies. However, low coverage/compliance with LM regulations does not mean that reforms of the latter are irrelevant or misguided → coverage and enforcement are endogenous and inter alia depend of the regulations themselves

• **Useful reminders:**
  – LM institutions and policy do not work in isolation; consider complementarities and synergies
  – Country-specific tailored approach is absolutely needed (see G20 EWG)
  – Consider policies to foster aggregate demand: yes in the GSs
Employment Protection Legislation, indeed one of the most controversial LM institutions

A “plateau effect”?

– Non-linearity is theoretically and intuitively reasonable, but consensus view on the boundaries of the plateau? Not really!

– Empirical analysis of the impact of EPL on ER or UR yields varying results; more consensus on –ve effects on disadvantaged groups

How and where should we look?

– Levels of ER or UR? Not really! More on LM flows and effective reallocation of labour

– Macro or micro-based regressions that can really identify the effects of reforms

– Overall EPL or the differential treatment of workers under different (no) contract?

Micro-economic empirical evidence suggests strict EPL affects the magnitude and effectiveness of labour reallocation to most productive uses and thus labour productivity

Large gaps in EPL across labour contracts is often associated with segmentation, inefficient labour mobility, greater wage dispersion and inequality and lower productivity
A wide-ranging labour reform, introduced in the aftermath of a deep recession

- **Collective bargaining: decentralisation and higher wage flexibility**
  - Priority to firm-level agreements; extension of working conditions leading to firm-level decisions; opt-out clause; limitation to automatic extension

- **Reduction in the gap between EPL for permanent and temporary contracts**
  - Reduction in the cost of unfair disciplinary dismissals – still higher than EU avg); extension of conditions for objective dismissals; increase in termination costs for fixed-term contracts; new permanent contract for firms with less than 50 employees with one year trial period and social security rebates

**Results:**

- **Significant wage moderation**: contributed to reduce the pace of job losses; fostered competitiveness (convergence of ULC towards GER); but contributed to the harsh on workers with distributional effects.

- **Shift towards job creation of permanent contracts**: OECD micro-based analysis suggests significant shift in hiring on perm. basis compared with baseline; higher employment elasticity of output growth.
Spain: changes in permanent contracts

Monthly hirings with permanent contracts, including conversion, 2006-2013

Firms with up to 100 employees

Source: Estimations on the basis of data on the datos estadísticos de contratos (Source: SEPE).
Thank you

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